Narragansett Electric
A National Grid Company

Terry L Schwennesen
General Counsel

September 8, 2003

BY HAND DELIVERY AND ELECTRONIC MAIL

Ms. Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

Re: Request for Approval to Place Newport Naval Station on Rate G-62 Effective No Later than January 1, 2005

Dear Ms Massaro:

Enclosed on behalf of The Narragansett Electric Company ("Narragansett" or "Company") are an original and nine copies of a request to transfer the Naval Station at Newport, Rhode Island ("Navy") onto the Company's Rate G-62 effective on the earlier of (1) January 1, 2005 pursuant to Sections 6 and 23 of the Third Amended Stipulation and Settlement ("Settlement") approved by the Commission in Docket No. 2930[1], or (2) the Commission's approved effective date for a new rate plan superseding the present rates in effect. For the reasons articulated below, the Company is requesting the Commission's approval for this proposal by no later than October 1, 2003.

Background

1. The BRAC Review

As part of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107 (Dec. 28, 2001), the Congress directed a new round of Base Realignment and Closure ("BRAC") review to address excess military base capacity. The BRAC process was created by the United States Congress to recommend and implement the realignment and closure of Department of Defense ("DOD") facilities on a periodic basis. Every DOD facility is subject to BRAC review. The current round of BRAC is scheduled to commence later this year, with the next round of BRAC recommendations scheduled to be implemented in 2005.

[1] On March 24, 2000, the Commission approved the Third Amended Stipulation and Settlement, dated March 14, 2000, submitted to the Commission by the Company on behalf of the signatory parties for rates to become effective with the merger of Narragansett, Blackstone Valley Electric Company and Newport Electric Corporation.

Rhode Island has a proportionately high naval presence, due primarily to the Naval Station at Newport. In view of the significant impact that a BRAC decision could have on the state, the Economic Development Corporation ("EDC") has formed a BRAC 2005 Committee to help the state prepare for the upcoming BRAC review. Provided as Attachment 1 to this filing is a report recently commissioned by the Newport Chamber of Commerce which details the impact of the Navy on Rhode Island's economy.

Representatives from the EDC and the Navy have expressed increasing concern over the Navy's ability to compete with other military facilities given, among other things, the cost of electricity delivered to the base. These officials have requested that Narragansett seek Commission approval to lower the Navy's overall electric delivery rate by placing the Navy on Rate G-62, a rate that the Navy would otherwise qualify for, but for the mandatory nature of Rate N-01.

2. Docket 2930 Settlement

In accordance with the terms of the Docket 2930 Settlement, the Navy began taking retail delivery service from the Company under the Company's 69 kV Rate (N-01) ("Rate N-01") as of May 1, 2000. Rate N-01 was first implemented in Narragansett's tariffs as part of the merger in Docket 2930 and is mandatory for the Navy. The Navy is the only Narragansett customer taking service under this rate.[2]

Pursuant to Section 6 of the Settlement, Narragansett's distribution rates are intended to remain in effect or "frozen" through December 31, 2004. The rate plan established under the Settlement, including the level of immediate rate reductions provided to customers, was premised among other things on the Navy being served on Rate N-01 throughout the period of the rate freeze. The rate plan is also subject to a revenue neutral rate design proceeding that the Company is obligated to commence by June 2004. Specifically, Section 23 of the Settlement requires the Company to make a revenue neutral filing on or before June 1, 2004 based on a fully allocated cost of service and propose new rates for all classes of customers effective January 1, 2005. Alternatively, the Company also has the right to seek a rate increase to become effective on January 1, 2005 which must also include a fully allocated cost of service. See Sections 6(D) and 23 of the Settlement.

Narragansett's Request to Amend the Navy's Rates

As mentioned above, the rate plan Settlement in Docket 2930 was premised on the Navy remaining on Rate N-01 throughout the rate freeze period, and Rate N-01 is mandatory for the Navy. However, were it not for Rate N-01, by size, the Navy also would qualify for service under Rate G-62.[3]

[2] As noted in Section 2(a) of the Settlement, the placement of the Navy on Rate N-01 as part of the merger rate plan in Docket 2930 lowered the Navy's annual distribution charges by approximately $734,000.

[3] In addition, but for Rate N-01, the Navy also could qualify for Narragansett's High Voltage Rate (H-72) ("Rate H-72"). Narragansett originally proposed Rate H-72 for service to Amtrak; however, Amtrak currently receives service under Narragansett's Electric Propulsion Rate X-01. There is no customer taking service under Rate H-72. Customers that would be eligible to take service under Rate H-72 also would be eligible to take service under Rate G-62 or Narragansett's 200 kW

Narragansett's rate schedule R.I.P.U.C. No. 1140, 3000 kW Demand Rate (G-62) is available to customers whose maximum 12-month demand is 3,000 kilowatts (kW) or greater. The Navy's maximum 12-month demand for the 12-months ending July 2003 was approximately 20.9 megawatts (MW). Narragansett intends to include the transfer of the Navy to Rate G-62 either in the revenue neutral rate design filing that the Company is required to make under Section 23 of the Settlement or in the overall rate filing that the Company is otherwise allowed to put into effect on January 1, 2005.

In this filing, the Company is requesting Commission approval to transfer the Navy to Rate G-62 on the earlier of: (1) January 1, 2005, the date upon which either a revenue neutral or overall rate filing would go into effect; or (2) the Commission's approved effective date for any other settlement that may supersede rates in effect pursuant to Docket No. 2930. The Company has already begun discussion with various parties to the Docket 2930 Settlement in an effort to achieve a new rate plan. Thus there is a possibility that the parties may reach a new settlement that would supersede the existing rates in Docket 2930 by as early as April 1, 2004. In any event, the Company has the right to file rates to become effective as of January 1, 2005 and is requesting Commission approval to transfer the Navy to Rate G-62 on a revenue neutral basis no later than that date.

Narragansett's proposal assures that the Navy will receive the benefits of Rate G-62 by January 1, 2005 at the latest and will continue to realize those benefits over the long term future. Approval by the Commission of the Company's proposal would enable the Navy to notify the DOD and BRAC by October 1, 2003 that rate reductions are in fact approved by the Commission for implementation no later than January 1, 2005, the year that the BRAC recommendations would likely be implemented.

Rate Impacts

Based on rates presently in effect, shifting the Navy from Rate N-01 to Rate G-62 would result in a significant cost reduction for the Navy. Distribution-related charges alone would decrease by about $1.1 million. An analysis showing the billing impact to the Navy under present rates is provided in Attachment 2 to this filing. The Company has no reason to believe that there would be any decline in the amount of the reduction shown by the present rate structure made as part of a revenue neutral rate design filing or as part of any general rate review that may occur at the end of the initial rate plan period.

Basis for Approval

Given the vital role that the Naval Station at Newport plays in the economic well-being of the State of Rhode Island and of all of its citizens, and given the adverse impact that would result if existing activities at the Naval Station were significantly curtailed or terminated, as well as the negative effect to Narragansett's other customers if the Naval Station were to significantly reduce its activities in Newport, it is in the public interest to take actions that would reduce the electric delivery charges to, and increase the competitiveness of, the Naval Station at Newport via non-discriminatory and equitable means. Because the Navy would be taking service pursuant to a generally available rate schedule available to

---

Demand Rate (G-32) ("Rate G-32"). As of July 2003, there were 11 customers taking service under Rate G-62 and 948 customers taking service under Rate G-32. In the interest of rate simplification and to reduce the number of overlapping and duplicative rates, Narragansett intends to seek Commission approval in the near future to close and terminate its Rate H-72.

280 Melrose Street
Providence, RI 02907
401-784-7644 Fax: 401-784-4321
terry.schwennesen@us.ngrid.com

other similarly sized customers, the reduction should not be construed by the Commission as a "discount" or as "special rate" as defined by § 39-2-5 (10) of the Rhode Island General Laws and related case law. But for the existence of Rate N-01 and the orderly transition of rate reductions established in Docket 2930, the Navy would otherwise qualify for Rate G-62 on the basis of its kW demand. Accordingly, no special qualifications are necessary to determine that the Company's proposal is "not unjustly discriminatory" pursuant to § 39-2-5 (10) of the Rhode Island General Laws.

Summary

For the reasons cited above, Narragansett requests Commission approval by October 1, 2003 of Narragansett's plan to transfer the Navy to Rate G-62 on a basis that is revenue neutral to Narragansett either as part of (1) a rate design filing pursuant to Section 23 of the Settlement, (2) a general rate proceeding pursuant to Section 6 (D) of the Settlement or (3) a comprehensive settlement superseding the Docket 2930 Settlement, and that such transfer shall become effective no later than January 1, 2005.

Thank you for your attention to our filing. Please contact me if you have any questions regarding this submission.

Very truly yours,

Terry L. Schwennesen

c: Docket 2930 Service List
John Reichert, U.S. Navy
Kay Davoodi, Esq. U.S. Navy
Keith Stokes, Newport Chamber of Commerce

Attachment 1

The Impact of the Defense Industry on Rhode Island

An Overview

The Impact of the Defense Industry on Rhode Island:

An Overview

This economic impact study was commissioned by the Southeastern New England Defense Industry Alliance (SENEDIA) under a Rhode Island state grant administered by the Newport County Chamber of Commerce.

The study was conducted by Ninigret Partners, LLC.

For further information contact:
The Southeastern New England Defense Industry Alliance
P.O. Box 113
Newport, Rhode Island 02840
401-965-6899
www.senedia.org

June 2003

The Impact of the Defense Industry on Rhode Island

An Overview

EXECUTIVE SUMMARY

The Defense Industry is a Major Employer in Rhode Island

- The defense industry employs nearly 16,000 people.
- Rhode Island is nearly 30% more dependent on Department of Defense employment than the nation, six times more dependent than Massachusetts, and three times more dependent than Connecticut.

Rhode Island's Defense Industry is a Significant Driver of the State's Economy

- The total economic impact of defense industry payrolls is approximately $1.5 billion.

Rhode Island's Defense Industry is Diverse

- Rhode Island's defense industry ranges from the technology of submarines and weapon systems development to the manufacture of military medals, camouflage designs, and blankets.

The Defense Industry is a Major Component of Rhode Island's High Tech Economy

- More than one-third of Rhode Island's computer software and services employment and at least 25% of our patents are related to the defense industry.

The Defense Industry is a Significant Contributor to the State Budget

- The defense industry annually generates at least $53 million in taxes for the state treasury.

INTRODUCTION

The defense industry has a substantial economic impact on Southern New England in general and Rhode Island in particular, but the extent of this impact is not well understood or appreciated. The purpose of this study is to present a summary of data that clearly demonstrate the magnitude of the influence of defense spending on the economic life of our state. It underscores the necessity of taking appropriate action to ensure that Rhode Island continues to benefit both from maintaining and from increasing our economic ties with the defense community.

Rhode Island has a long and impressive history of participating in America's defense. Our state's ties to the U.S. Navy run particularly deep. In August of 1775, the Rhode Island General Assembly issued the first public declaration for a navy in the colonial period. Moreover, since colonial times, the importance of Rhode Island to the nation's naval fighting capacity has been well documented. From training the Navy's sailors and future admirals to designing complex weapon systems, Rhode Island has always been at the forefront of the nation's goal of controlling the seas.

Today, the defense industry in Rhode Island is marked by diversity. When defense-related business is discussed, one naturally thinks of Aquidneck Island's defense contractors whose principal customer is the U.S. Navy. However, as a recent article in the *Providence Business News* pointed out, there are over 100 firms in the state that support the Department of Defense, ranging from engineering support to highly sophisticated submarine warfare systems to the manufacture of military medals, uniform materials, and blankets. All of these companies, large and small, play a role in our nation's security and, in turn, contribute to the quality of life in Rhode Island by providing employment opportunities to thousands and thousands of our citizens.

Presented in this paper are a brief overview of the defense industry in Southern New England, Rhode Island-specific research data that provide a comprehensive defense industry impact profile, and a concluding summary.

THE DEFENSE INDUSTRY & SOUTHEASTERN NEW ENGLAND

To say that undersea warfare is key to America's defense capability is to state the obvious. One need only examine the role our submarine force played in the Cold War and in the war in Iraq to understand the importance of undersea dominance in winning the war and keeping the peace. Southern New England plays an enormous part in maintaining this capability.

Consider that, nationwide, undersea warfare is a $6.2 billion industry annually. Now consider that an estimated 61% of all undersea warfare dollars flow through Southeastern New England! This percentage includes $3.4 billion in contracts from the U.S. Navy.

Undersea warfare is about a $6.2 billion industry...... *.....with an estimated 61% of all undersea warfare dollars flowing through Southeastern New England*

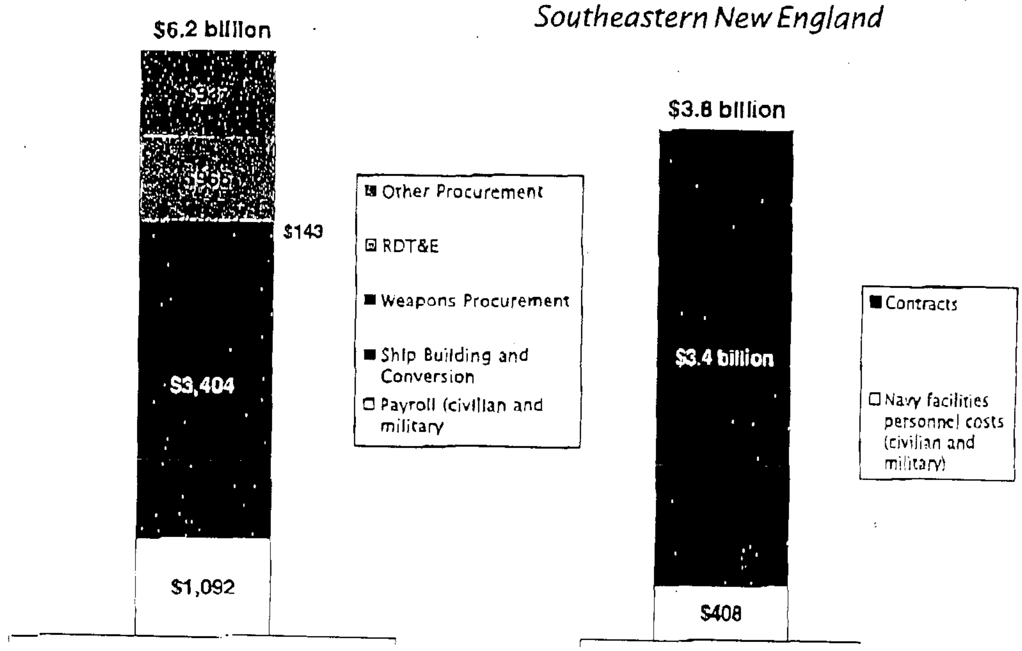

Figure 1. Rhode Island & Southeastern New England Represent a Large Share of the Nation's Undersea Warfare Capacity

THE DEFENSE INDUSTRY & RHODE ISLAND

To understand what this means to the economic welfare of Rhode Island, we must examine certain economic statistics and provide specific data for such important indicators as the defense industry and:

- Employment
- Payroll
- Economic "Spin-Off" Activity
- Navy Impact
- Wage Levels
- Defense and a High-Tech Economy
- Tax Revenue
- Real Estate
- Other Economic Factors (Charitable Contributions, Health Care Costs, etc.)

Employment

Rhode Island's defense industry employs 15,712 people and includes a variety of military commands and commercial companies. Their products and services can roughly be categorized as: (1) Research, Development, Testing, and Engineering, and (2) Logistics and Operations. Examples of professional support and defense-related products in each area are listed below.

Research, Development, Testing, and Engineering

- Research, development, testing, and engineering professional services
- Computer system and software development
- Program management and outsourced services
- Navigation equipment
- Sonar, acoustics, torpedoes, mines, and weapon launch systems
- Submarine fabrication and outfitting
- Submarine and surface ship command and control system development and integration
- Tomahawk Cruise Missile support
- Precision tooling
- High performance parts for aerospace applications
- Materials testing
- Computer-aided engineering software

Logistics and Operations

- Ship repairs
- Submarine fleet support
- Construction
- Military woolen blankets, dyeing services for camouflage fatigues, laminated pouches, insoles for footwear
- Medals and insignia
- Security
- Fencing and guardrails

The "bottom line" is that the defense industry provides over 15,700 jobs in Rhode Island.

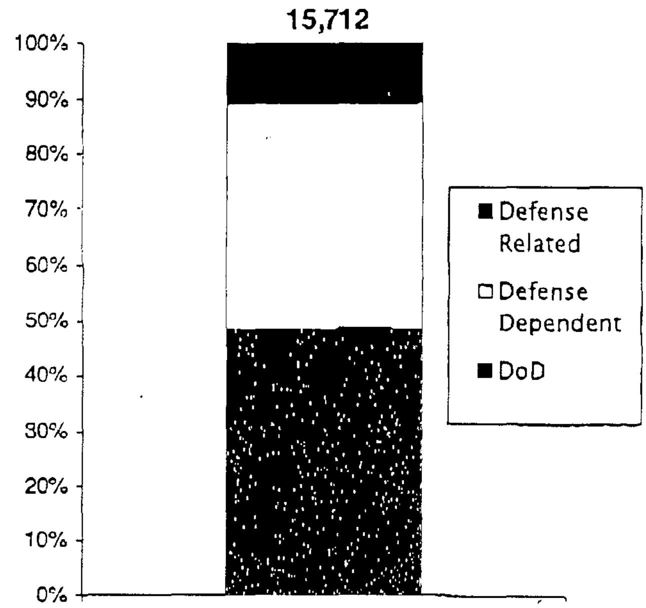

Figure 2. Defense Industry Employment

This total (15,712) includes:

Department of Defense - 7,692
- Civilian - 4,044
- Military - 1,484
- Military Student (on a continuing basis) - 2,164

Defense-dependent employment (more than 50% of revenues come from defense industry work.) - 6,293.
Defense-related employment (at least 10% but no more that 50% of revenues come from defense industry work) - 1,727.

Payroll

Rhode Island's defense industry payrolls total nearly $900 million.

This total includes:

- Navy (uniformed and civilian)—$499 million
- Other military services (less than 250 people in RI are employed by services other than the U.S. Navy)—$22.9 million
- Defense-dependent—$304 million
- Defense-related—$59 million

Note: This total does not include National Guard and Reserve Unit pay, nor does it include military pensions. When these are added, defense industry payrolls reach over $1 billion.

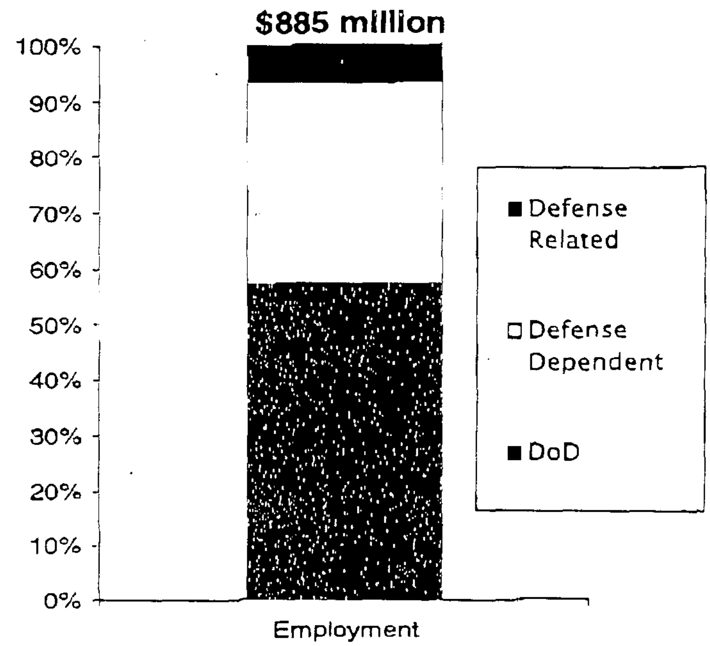

Figure 3. Defense Industry Payroll

Economic "Spin-Off" Activity

Indirect economic impact includes the "spin off" effects into the economy of each dollar spent directly by the military or prime contractor. Every $100 of defense spending in Rhode Island generates approximately $70 in "spin off" or additional activity in the state economy. Using these same multipliers for our estimates of military and private sector defense contractor payrolls, a total economic impact of defense industry payrolls alone reach nearly $1.5 billion.

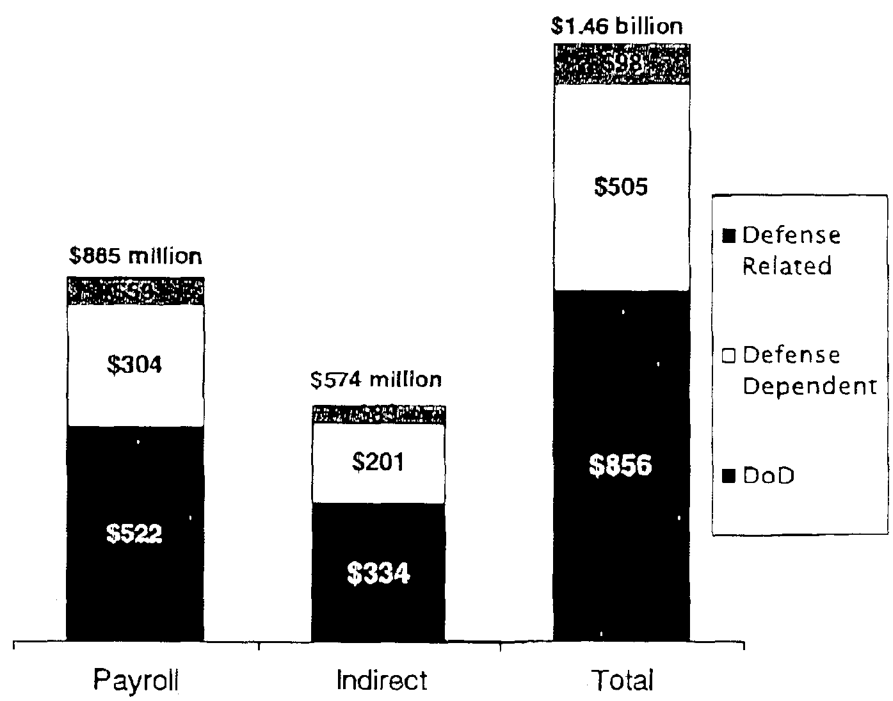

Figure 4. Total Economic Impact of Defense Industry Payrolls

Examples of economic spin off include: real estate, travel, taxes, services (restaurants, auto expenses, dry cleaning, etc.).

Navy Impact

Although defense contracts can vary from year to year, nearly all contracts issued in Rhode Island are Navy contracts.

The Navy is the principal source for a vast majority of defense - related contracts........

.....Spread across a number of categories

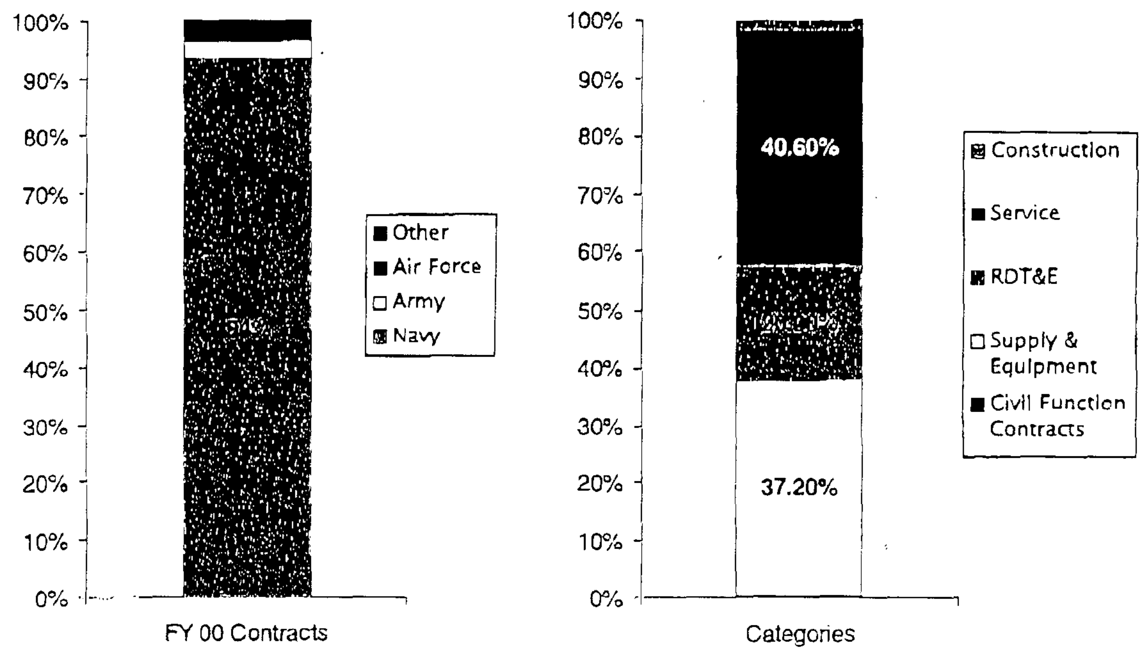

Figure 5. Defense Related Contracts & Categories of Contracts

The potential reach through contracting into the economy is large.

- The Naval Undersea Warfare Center (NUWC) in Newport alone has more than 1,500 contracts with outside vendors across RI, MA and CT.
- EB has approximately 100 RI-based subcontractors.
- Raytheon has a similar number.

There are also additional "vendor" relationships such as with Narragansett Electric, Blue Cross and Blue Shield of Rhode Island or other contracts based upon the location of the facility in Rhode Island.

The impact is felt in other items as well, such as air travel.

- One major defense industry employer generated more than 5,000 plane tickets through T. F. Green Airport (this excludes flights generated to visit the facility).

The most significant segment of the Navy's impact on the defense economy is the Naval Undersea Warfare Center. While it represents over one-fifth of the total defense-related payroll, it is also responsible for two-thirds of the defense-related contracts awarded to other Rhode Island companies (not including major contract awards directly from the military services).

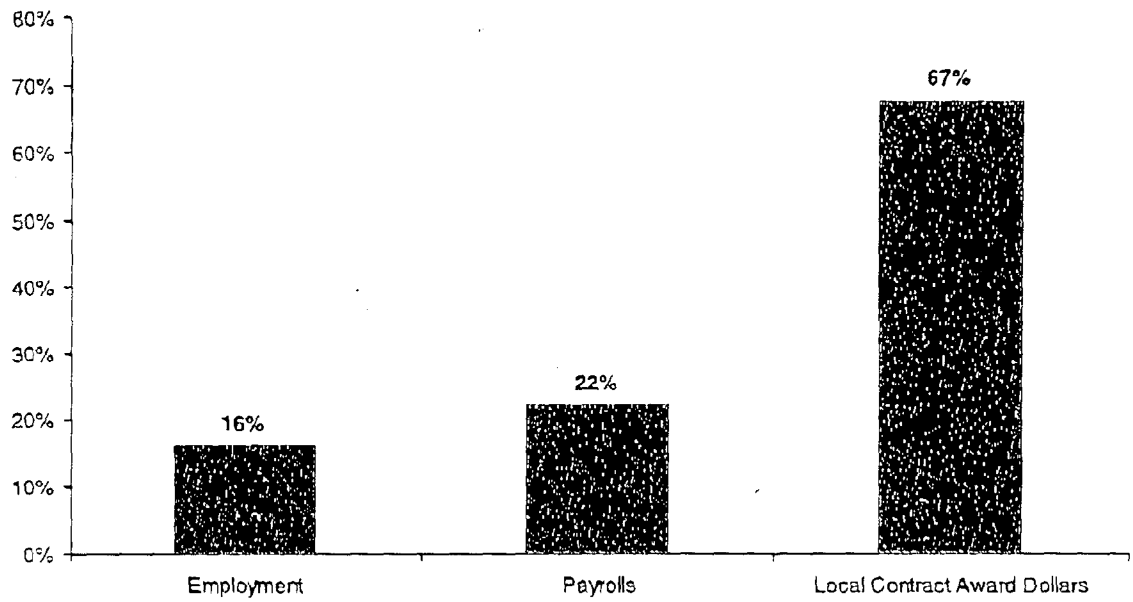

Figure 6. Naval Undersea Warfare Center as a Percent of RI Defense Industry Totals

The Naval Undersea Warfare Center's contracting reach extends across a wide range of industries and large parts of New England. Shaded areas on the map below indicate the Naval Undersea Warfare Center's outlays of between $25,000 and $30 million.

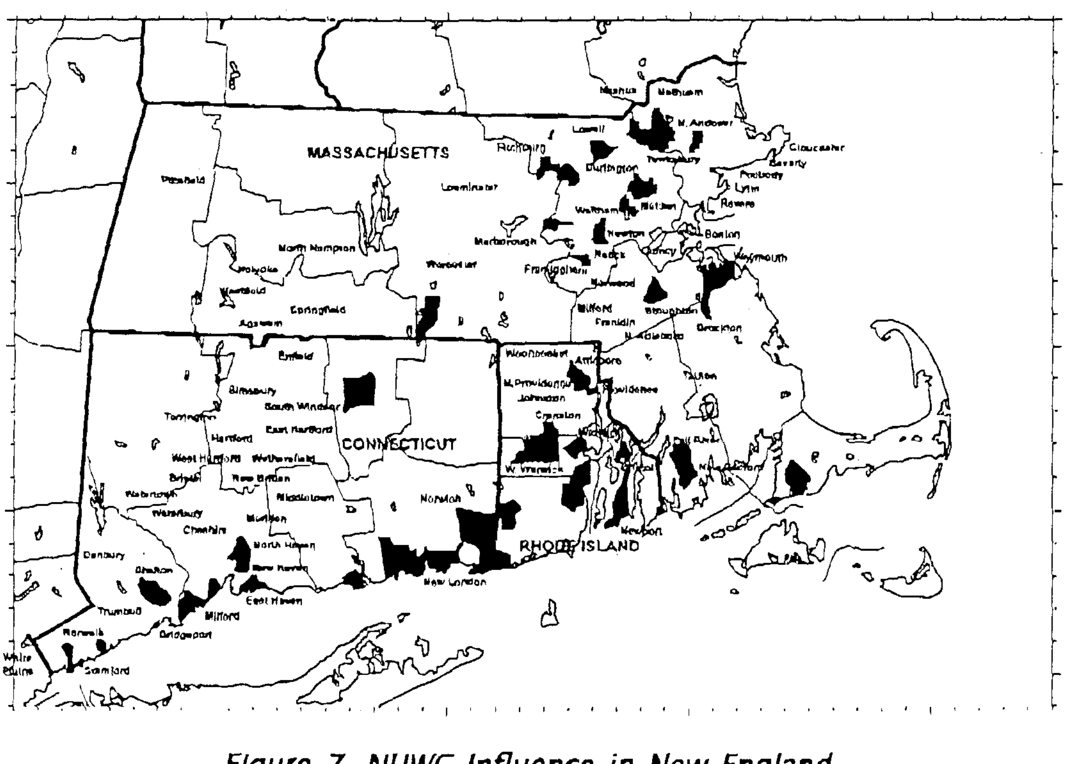

Figure 7. NUWC Influence in New England

Wage Levels

The high level of engineering, scientific, and technical skills demanded of Rhode Island's defense industry results in higher average wage levels than in many other important industries in our state.

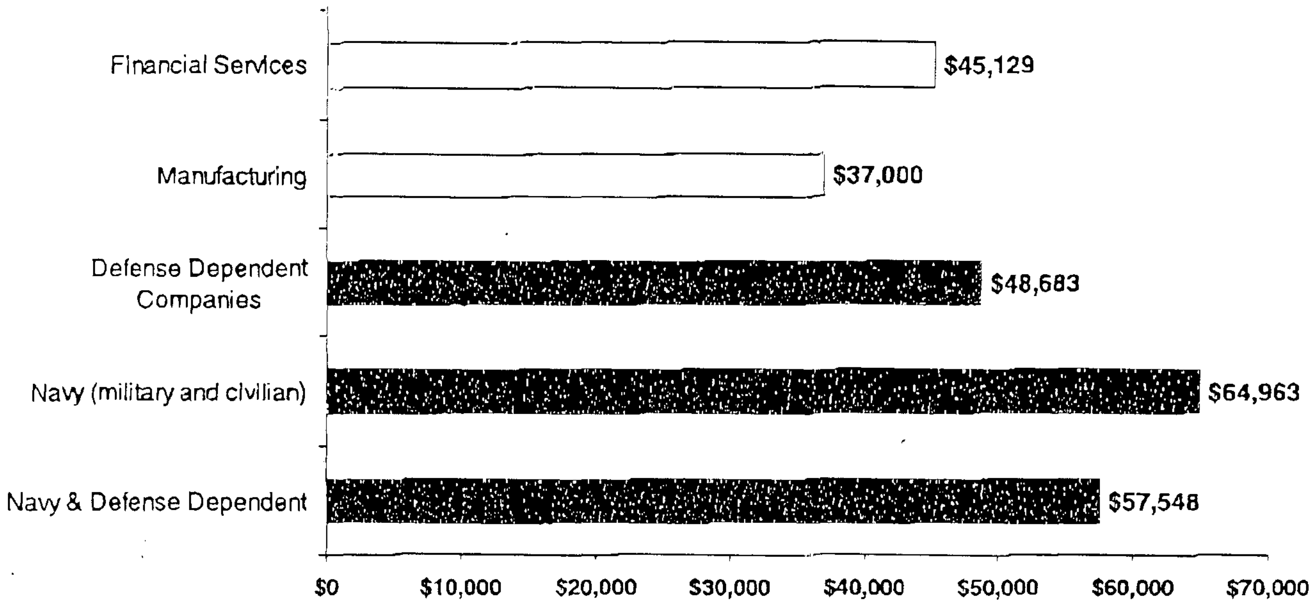

Figure 8. Comparison of RI Industry Average Wages

In addition, these higher-level wages have a positive effect on other key economic factors such as tax revenue and real estate values - as discussed below.

Defense and a High-Tech Economy

The defense industry in Rhode Island is a significant contributor to the state's high tech economy. Consider the following:

- Aquidneck Island's defense-related companies represent 21% of Rhode Island's total employment in the fields of computer, engineering, and management services.

- Two defense industry companies alone employ 20% of Rhode Island's non-medical scientific, technical, and engineering workforce.

- In 1999, the Naval Undersea Warfare Center was granted 63 patents, which accounted for 26% of all Rhode Island's patents. In 2002, this patent total had risen to 91. It is also noteworthy that this patent activity has led to the development of four high-tech companies in Rhode Island.

Tax Revenue

Rhode Island's defense industry generates at least $53 million in tax revenue for the state. This includes income tax withholding of approximately $33 million (excluding National Guard, Reserve, and retiree pay) and sales taxes of approximately $20 million. This excludes taxes generated directly by the businesses:

- Corporate income taxes
- Sales taxes
- Pass-through taxes such as the public utilities gross receipt taxes

It should also be noted that these businesses also generate substantial local property taxes.

Real Estate

Service industries, such as real estate, are major beneficiaries of the defense industry. In 2002 an estimated $35 million in DoD-related real estate activity was generated. For example, at least 25% of the major office buildings on Aquidneck Island have defense contractors as tenants or owners. For Aquidneck Island, this is of particular importance given the concentration of defense industry employees living in the area.

Other Economic Factors

Defense industries in Rhode Island are obviously major contributors to other important aspects of the state's economy. Two examples will serve as key examples.

- The defense industry is a major contributor to Rhode Island's charitable organizations. For example, in 2002, the four largest members of the defense industry contributed approximately $750,000 to the United Way, which raised $22 million that year.

- The defense industry through its insurance premiums helps to pay for the cost of the state's growing health care sector. On Aquidneck Island, defense contractors and the Department of Defense civilian employees pay at least $27.8 million in health insurance costs annually.

CURRENT TREND

While current defense employment levels and payrolls are very significant, the defense industry is still substantially below its 1970s levels and is approximately one-half of what it was in 1987. To allow for comparison across years, these numbers exclude military students. (Hence, total payroll for 2002 is shown as 13,600 vice the 15,712 previously cited.)

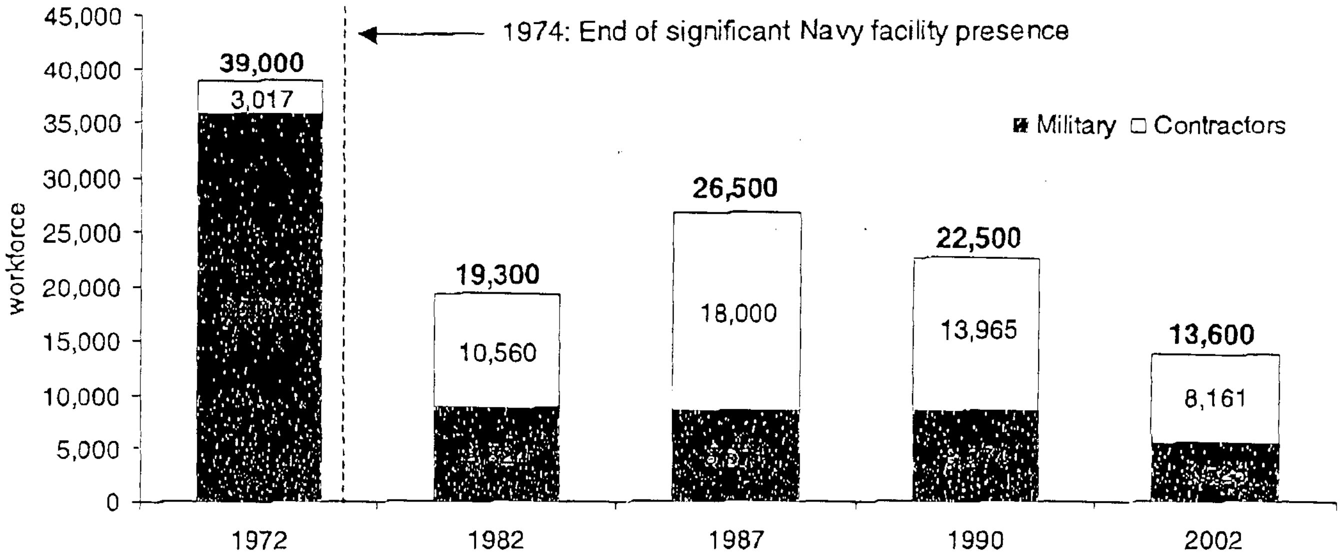

Figure 9. Estimates of Defense Industry Employment for Defense Contractor & Military 1972 - 2002

Rhode Island's defense industry today employs about one-half the number of personnel and is about one-third of its size based on prime contract awards when compared to 1987.

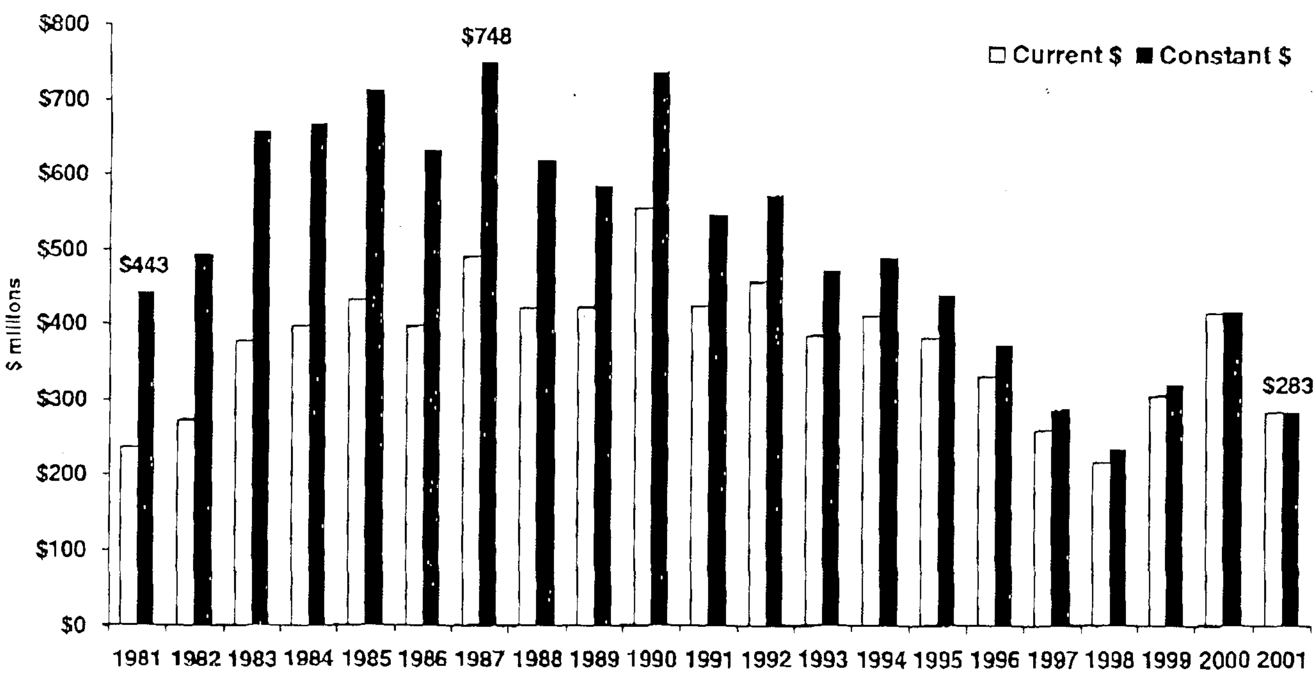

Figure 10. Rhode Island Defense Contract History FY 1981-2001 (in Constant 2001 Dollars).

Because of this trend and because the Base Realignment and Closure (BRAC) Commission will soon be evaluating the necessity of maintaining New England defense facilities, such as the Naval Undersea Warfare Center in Newport, the defense industry merits vigorous involvement by state officials and citizens.

SUMMARY

The data presented in this paper clearly demonstrate the importance of the defense industry to the economic well being of Rhode Island. The statistics, especially those related to employment and payroll, are impressive. Defense-related employment in our state as a percentage of private sector employment is six times greater than in Massachusetts and three times greater than Connecticut, while wage dependence follows the same pattern as employment. The military and the defense industry are key to Rhode Island's economy and quality of life.

- The defense industry employs over 15,700 people in Rhode Island.
- Rhode Island's defense industry payrolls total nearly $900 million with a total economic impact of nearly $1.5 billion. Every $100 of defense spending in Rhode Island generates approximately $70 in "spin off" activity in the state economy.
- The high level of engineering, scientific, and technical skills demanded of Rhode Island's defense industry results in higher wage levels than in many other important industries in our state.
- Aquidneck Island's defense-related computer, engineering, and management services companies represent 21% of Rhode Island's total employment in those fields.
- Two defense industry companies employ 20% of Rhode Island's non-medical scientific, technical, and engineering workforce.
- Rhode Island's defense industry generates at least $53 million in tax revenue for the state.
- At least $35 million in DoD-related real estate activity is generated by defense contractors as tenants or owners.
- The defense industry is a major contributor to Rhode Island's charitable organizations.
- Through its insurance premiums, the defense industry helps to pay for the cost of the state's health care.

Clearly, various state agencies, corporate entities, federal facilities, and citizens groups must be proactive in understanding and communicating the importance of this vital segment of the state's economy.

Attachment 2

Narragansett Electric Company
Billing Analysis for U.S. Navy

NARRAGANSETT ELECTRIC COMPANY
Billing Analysis for U S Navy
Billing Units for Year Ending December 31, 2002

	Rate N-01				Rate G-62				Difference	
	Unit Charges	Billing Units		Revenues	Unit Charges	Billing Units		Revenues		
Delivery Service Charges:										
Distribution Charges:										
Customer Charge	$ -	12	$	-	$17,118.72	12	$	205,424.64		
Distribution kWh Charge	$ 0.00574	114,133,500	$	655,126.29	$ 0.00396	114,133,500	$	451,968.66		
Distribution Demand Charge	$ 5.52	218,235.00	$	1,204,657.20	$ 0.75	218,235.00	$	163,676.25		
HVD Discount					$ (0.37)	218,235.00	$	(80,746.95)		
Reactive Demand	$ 0.17	25,485	$	4,332.45	$ -	-	$	-		
Total Distribution Revenue				1,864,115.94				740,322.60	$	1,123,793.34
Conservation	$ 0.00230	114,133,500	$	262,507.05	$ 0.00230	114,133,500	$	262,507.05	$	-
Transmission Charges:										
Base Transmission Charge	$ 0.00408	114,133,500	$	465,664.68	$ 1.39	218,235	$	303,346.65		
Transmission Adjustment Factor	$ 0.00063	114,133,500	$	71,904.11	$ 0.00063	114,133,500	$	71,904.11		
Total Transmission Revenue			$	537,568.79			$	375,250.76	$	162,318.03
Transition Charge	$ 0.00944	114,133,500	$	1,077,420.24	$ 0.00944	114,133,500	$	1,077,420.24	$	-
HVM Discount on Retail Delivery Charges					$ 2,536,247.60	-1.0%	$	(25,362.48)	$	25,362.48
Total Delivery Services			$	3,741,612.02			$	2,430,138.17	$	1,311,473.85
Gross Receipts Tax				155,900.50				101,255.76	$	54,644.74
Sales Tax (if applicable)										
Total Delivery Services Including Taxes			**$**	**3,897,512.52**			**$**	**2,531,393.93**	**$**	**1,366,118.59**
Generation Charges:										
Standard Offer Charge	$ 0.05500	114,133,500	$	6,277,342.50	$ 0.05500	114,133,500	$	6,277,342.50		
HVM Discount on Generation Charges					$ 6,277,342.50	-1.0%	$	(62,773.43)		
Total Generation Service			$	6,277,342.50			$	6,214,569.07		62,773.43
Gross Receipts Tax				261,555.94				258,940.38		2,615.56
Sales Tax (if applicable)										
Total Generation Services Including Taxes			**$**	**6,538,898.44**			**$**	**6,473,509.45**	**$**	**65,388.99**
Total Cost of Electricity			**$**	**10,436,410.96**			**$**	**9,004,903.38**	**$**	**1,431,507.58**